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Davis Distributing
Limited

Annual Report
1975



Davis Distributing
Limited

Directors:

B. Davis
S.D. Vader
J.R. Woods
J.C. McCartney
T.J. Gowland

Officers:

B. Davis, *President*
T.J. Gowland, *Vice-President*
S.D. Vader, *Secretary Treasurer*

*Subsidiary
Operations:*

Young-Robertson (Guelph, Ontario)
Katz Brothers Tobacco (Toronto)

*Transfer Agent and
Registrar:*

The Metropolitan Trust Company
Toronto, Ontario

Co-Transfer Agent:

The Morgan Trust Company
Montreal, Quebec

Banking:

Bank of Montreal, Toronto

Auditors:

Richter, Usher & Vineberg
Chartered Accountants, Toronto

Legal Counsel:

McCarthy & McCarthy
Barristers & Solicitors, Toronto



Davis Distributing
Limited

REPORT TO THE SHAREHOLDERS

The Company continued to make progress throughout the fiscal year ending June 30, 1975. The consolidated financial statements show that the Company earned 50¢ per share on sales of \$21,841,985.

Management worked diligently to return the Company quickly to its proper level of earnings. The Toronto and Guelph wholesale operations continue to operate profitably. The retail operations have gradually turned around from substantial losses to modest profits.

Subsequent to the fiscal year end, the Company sold its building and property on the Queen's Quay in Toronto for cash. The extraordinary profit on this transaction is estimated to be \$140,000 after taxes.

In October, the Company acquired the business of Katz Brothers Tobacco Limited, a wholesale cash and carry operation in Toronto. Because of the similarity of the businesses, the Company will be able to reduce substantially the inventory requirements of Katz Brothers and, accordingly, anticipates an excellent return on its investment.

In view of the return to a more normal level of profits, the directors will meet to consider the resumption of dividends.

On behalf of the Board

November 10, 1975.

B. DAVIS,
President.



Davis Distributing
Limited

CONSOLIDATED BALANCE SHEET

	June 30 1975	June 30 1974
ASSETS		
CURRENT ASSETS		
Cash	\$ 99,297	\$ 123,006
Accounts receivable	1,873,508	1,786,484
Inventories, at the lower of cost or net realizable value	2,047,074	2,300,006
Prepaid expenses and sundry assets	190,597	69,954
Income taxes refundable		123,842
	<u>\$4,210,476</u>	<u>\$4,403,292</u>
FIXED ASSETS — Note 2		
Land, building, equipment, vehicles and leasehold improvements	\$ 571,770	\$ 567,236
Accumulated depreciation	200,961	173,591
	<u>\$ 370,809</u>	<u>\$ 393,645</u>
EXCESS OF COST OVER BOOK VALUE OF BUSINESSES AND SUBSIDIARY ACQUIRED	<u>71,388</u>	<u>\$ 71,388</u>
	<u>\$4,652,673</u>	<u>\$4,868,325</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank advances — Note 3	\$1,212,500	\$1,110,000
Accounts payable and accrued liabilities	2,067,717	2,672,062
Current portion of mortgage payable	5,000	5,000
Income taxes payable	93,766	12,328
	<u>\$3,378,983</u>	<u>\$3,799,390</u>
LONG TERM		
7% Mortgage payable	\$ 7,576	\$ 14,132
Note payable		37,500
	<u>\$ 7,576</u>	<u>\$ 51,632</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK — Note 4	<u>\$ 537,856</u>	<u>\$ 537,856</u>
RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST — Note 5	<u>734,216</u>	<u>\$ 485,405</u>
	<u>\$1,272,072</u>	<u>\$1,023,261</u>
4,000 Common Shares Purchased, at cost	5,958	5,958
	<u>\$1,266,114</u>	<u>\$1,017,303</u>
	<u>\$4,652,673</u>	<u>\$4,868,325</u>
Approved on behalf of the Board:		
B. DAVIS, <i>Director</i>		
I. J. GROSMAN, <i>Director</i>		

AUDITORS' REPORT

To the shareholders of
DAVIS DISTRIBUTING LIMITED

We have examined the consolidated balance sheet of Davis Distributing Limited and subsidiary companies as at June 30, 1975 and the consolidated statements of earnings, retained earnings and excess of appraised value of land over cost, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1975 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
September 24, 1975

RICHTER, USHER & VINEBERG,
Chartered Accountants

For the Year Ended

CONSOLIDATED STATEMENT OF EARNINGS

	June 30 1975	June 30 1974
Sales	\$21,841,985	\$22,308,250
Cost of sales, operating and administrative expenses, exclusive of depreciation and interest	21,305,709	22,068,518
	<u>\$ 536,276</u>	<u>\$ 239,732</u>
Depreciation	\$ 29,699	\$ 27,760
Interest (including interest of \$1,181 on long term debt, \$1,585 — 1974)	158,852	124,179
	<u>\$ 188,551</u>	<u>\$ 151,939</u>
Earnings from continuing operations before Income Taxes	\$ 347,725	\$ 87,793
Provision for income taxes	\$ 173,914	\$ 43,595
Earnings from continuing operations	\$ 173,811	\$ 44,198
Loss from discontinued operations		(530,199)
Net earnings (loss) before extraordinary item	\$ 173,811	\$ (486,001)
Income tax reduction realized on carry forward of losses of prior years	75,000	
Net earnings (loss)	<u>\$ 248,811</u>	<u>\$ (486,001)</u>
Earnings (loss) per Class A share and common share		
Earnings from continuing operations	<u>34.9¢</u>	<u>8.9¢</u>
Earnings (loss) before extraordinary item	<u>34.9¢</u>	<u>(97.6¢)</u>
Net earnings (loss)	<u>50.0¢</u>	<u>(87.6¢)</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST

Balance — beginning of year	\$ 485,405	\$ 984,749
Net earnings (Loss)	248,811	(486,001)
Dividends		13,343
Balance — end of year	<u>\$ 734,216</u>	<u>\$ 485,405</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Working capital was provided from

Operations		
Net earnings	\$ 248,811	
Non cash charge to earnings — depreciation	\$ 29,699	
	<u>\$ 278,510</u>	
Proceeds from sale of equipment	6,846	\$ 4,124
	<u>\$ 285,356</u>	<u>\$ 4,124</u>

Working capital was used for

Operations		
Net loss	\$	\$ 486,001
Non cash charge to earnings — depreciation		27,760
		<u>\$ 458,241</u>
Fixed asset additions	\$ 13,709	\$ 39,447
Mortgage Payments	6,556	5,759
Reduction in long term debt	37,500	
Dividends		13,343
Purchase of common shares		927
	<u>\$ 57,765</u>	<u>\$ 517,717</u>

Increase (decrease) in working capital	\$ 227,591	\$ (513,593)
Working capital — beginning of year	603,902	1,117,495
Working capital — end of year	<u>\$ 831,493</u>	<u>\$ 603,902</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1975

NOTE 1 — BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Davis Distributing Limited and its wholly owned subsidiaries, Nathan Davis Vending Limited and Young-Robertson Limited.

All material inter-company amounts have been eliminated on consolidation.

NOTE 2 — FIXED ASSETS

Fixed assets are classified as follows:

	At Cost Or As Stated	Accumulated Depreciation	Net Book Value
Land, at appraised value June 16, 1965	\$198,000		\$198,000
Building	85,543	\$ 40,102	45,441
Warehouse, vending and office equipment	200,245	130,276	69,969
Vehicles	9,941	7,131	2,810
Leasehold improvements	78,041	23,452	54,589
	<u>\$571,770</u>	<u>\$200,961</u>	<u>\$370,809</u>

Depreciation rates adopted by the company are:

(a) On the diminishing balance method

Building — 5% per annum

Warehouse, vending and office equipment — 20% per annum

Vehicles — 30% per annum

(b) On the straight line method

Leasehold improvements — term of lease

NOTE 3 — SECURITY FOR BANK ADVANCES

The accounts receivable and a debenture providing a floating charge on the assets of the parent company have been pledged as security for the bank advance.

NOTE 4 — CAPITAL STOCK

Authorized

500,000 class A shares without par value

1,835,000 common shares without par value

Issued

325,000 class A shares \$ 1,250

176,803 common shares 536,606

\$537,856

The class A shares are convertible at any time into fully paid common shares on a one for one basis.

No dividend may be declared on the class A shares in a financial period unless a dividend of the same or greater amount is or has been declared on the common shares in such financial period.

Options have been granted to employees to purchase up to 4,000 common shares at \$1.75 per share until July 31, 1975. No material dilution of earnings would result from the exercise of these options.

NOTE 5 — RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST

The retained earnings and excess of appraised value of land over cost includes \$158,777 excess of appraised value of land over cost resulting from an appraisal on June 16, 1965.

NOTE 6 — LEASE OBLIGATION

The company has a lease commitment expiring in 1989 for its warehouse at an annual rental of \$78,027.

NOTE 7 — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers as defined by The Securities Act (1966) of Ontario for the fiscal year ended June 30, 1975 was \$126,200.

NOTE 8 — TAX LOSSES

A subsidiary has losses for tax purposes of approximately \$300,000 which may be carried forward against income of future years up to 1979.

NOTE 9 — SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 1975

- (i) On August 1, 1975, the company agreed to purchase the inventory and other assets of a company conducting a similar business for a price which included \$198,000 goodwill.
- (ii) On August 29, 1975, the land and building owned by the company was sold for a profit of approximately \$140,000 after applicable income taxes.



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